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The cost of Soviet defense fact vs. fiction, I

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One of the more esoteric debates among economists specializing in Soviet affairs is how much of the U.S.S.R.'s gross national product goes into overall military expenditures.

A percentage statistic having been arrived at — say, 5-percent or 12 percent or whatever — the producer of the statistic then compares it with that percentage of GNP which the United States devotes to defense. Then the debate begins between the two sets of figures, one of which is always a publicly known, consensual quantity, that of the United States, and the other, always and by design a publicly unknown quantity, at best a guesstimate, that of the Soviet Union.

And the debate rests on the base of a false premise: that it is possible to compare the Soviet budget and the U.S. budget.

Now the question about the Soviet GNP and that percentage devoted to defense is serious, because the debate on America's defense program hinges on what we know or can know about Soviet defense expenditures. Is the U.S. defense effort adequate or super-adequate? Are the CIA or Pentagon deliberately manipulating Soviet "statistics" to further their own interpretative prejudices?

Whatever the figures, someone is bound to raise questions as to their validity.

As an example of how misleading the comparative U.S.-U.S.S.R. statistics debate can be, let's examine a recent article in *The New York Times* Op-Ed page of March 9, which claimed that President Reagan was

wrong in claiming that Soviet defense expenditures had exceeded those of the United States by hundreds of billions of dollars.

The author, Professor Franklyn D. Holzman of Tufts University, argued that there is no military spending gap between the United States and the U.S.S.R. True wages in America are considerably higher than they are in the U.S.S.R. but, Holzman said, U.S.S.R. production costs of machinery and equipment, especially high-tech weapons, is many times more expensive than in the United States. Wrong.

Machinery and equipment are far less expensive to produce in the Soviet Union because there is no profit to be shared by the produc-

ing factories involved in supplying the raw and semi-finished products that go into the production, say, of tanks. (Of course, certain precious metals used in hi-tech items and not readily available in the U.S.S.R. must be purchased abroad for hard currency, but that is a minor item of the total cost of weapons.)

As Professor Mikhail Bernstam of the Hoover Institution has pointed out, the cost of each particular item of each piece of military machinery or equipment for a particular factory is in no way the eventual cost of the same item for the Soviet state as a whole. Arguing against the Holzman methodology, Bernstam offers the following model:

A Soviet airplane factory prices a

fighter plane it will sell to the Soviet state at \$10 million. It pays out to its suppliers of raw materials, energy, research and development \$5 million. It then pays out \$3 million for labor, including executive and management salaries. The total cost, then, to the factory is \$8 million, so that when it sells the fighter to the state it enjoys a profit of \$2 million.

But the "profit" vanishes instantly, since it is appropriated by the state. The \$5 million, presumably paid out by the airplane factory producer for raw materials, energy and R&D, also belongs to the state, except for a certain amount — say, \$1 million — which is the cost of labor for mining metal, coal, for refining oil and for the technologists and scientists engaged in R&D and so on.

Since the \$2 million "profit" has disappeared and since the \$5 million for raw material, energy and R&D is really \$1 million and since

the producing factory's labor cost is \$3 million, the total actual cost of the fighter plane to the Soviet state is really \$4 million — \$3 million for its own direct labor costs and \$1 million to indirect labor costs.

In the United States, the cost of the fighter plane would be a true cost to the Pentagon because expenditures are real, not fictitious, and the profit, if any, is real and not fictitious. In other words, if the same plane costs out at \$10 million in both countries, the U.S.S.R. can produce 2.5 airplanes vs. one airplane in the United States.

The only real measurable cost to the Soviet state for the production of armaments, or for that matter any other item, is labor. Since there are no free trade unions in the U.S.S.R., labor costs are as low as the working conditions are miserable.